

**Third Party Designee Information Was
Correctly Processed and Made Available to
Resolve Account and Notice Inquiries**

September 2002

Reference Number: 2002-40-167

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 10, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Acting Inspector General

SUBJECT: Final Audit Report - Third Party Designee Information Was
Correctly Processed and Made Available to Resolve Account
and Notice Inquiries (Audit # 200240024)

This report presents the results of our review to evaluate the accuracy and availability of the third party designee information for expediting timely and accurate resolution of taxpayers' account and notice inquiries. The review was a follow-up to concerns reported by the Treasury Inspector General for Tax Administration during the 2001 Filing Season on the Internal Revenue Service's (IRS) processing procedures for the third party designee.¹ Since these concerns were reported, the IRS made changes to its program. This review covered these changes. In its review of the IRS' 2002 Filing Season, the General Accounting Office is assessing whether the Third Party Designee Program is working effectively.

The 2001 Filing Season was the first year for the Third Party Designee Program. The Program (also called the "Checkbox Initiative" because of the checkbox added to the Third Party Designee section of the tax forms) was designed to lessen the burden on taxpayers by avoiding the need to file a Power of Attorney and Declaration of Representative (Form 2848), which would be otherwise necessary. The Program came about as a direct result of input from external stakeholders, including groups representing paid tax return preparers. While only paid tax return preparers could be designated for the 2001 Filing Season, the Program was expanded in the 2002 Filing Season to allow an individual taxpayer to designate a family member or friend.

A third party designee acts as an authorized third party contact for resolving certain issues related to the processing of a taxpayer's tax return. Issues include data

¹ *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season* (Reference Number 2001-40-192, dated September 2001).

omissions such as missing or incorrect Social Security Numbers (SSN). Also, the designation allows the third party to discuss the status of a refund, payment, or several notices with IRS representatives.

Between January 2 and May 18, 2002, nearly 25 million (24 percent) of the approximately 106 million individual income tax returns processed by the IRS contained the third party designation. Of the 25 million, approximately 16 million were paper and 9 million were electronically filed tax returns. For the 2002 Filing Season, the IRS estimated that an additional 40 keystrokes would be needed for each paper tax return with the third party designee selected. This amounted to an estimated 35.2 staff years to capture the information during processing of the tax returns.

In summary, the IRS correctly identified and accurately captured the third party designee information provided by taxpayers on their Tax Year 2001 tax returns during the processing of these returns. For over 94 percent of our sample of tax returns with a third party designee, a third party designee indicator² and the personal identification number³ (PIN) or preparer tax identification number (PTIN) were present on the taxpayer's account on the IRS' computer system.

Also, selected third party designee information was available for employees on the IRS' computer system for verifying that a caller inquiring about a taxpayer's account or notice was the third party designee. In 97 percent of our sample of tax accounts with a third party designee indicator, a comparison of the third party designee information between the tax return and the tax account showed the IRS accurately captured the information during processing. Also, the indicator and the PIN or PTIN were available on the computer system to verify that the caller inquiring about a taxpayer's tax matter was the third party designee.

We did not make specific recommendations in this report; therefore, comments from the IRS were not required.

Copies of this report are also being sent to the IRS managers who are affected by the report findings. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

² During the processing of the tax return, the IRS places a "1" in the third party designee indicator field on the taxpayer's account if a third party designee was selected on the tax return.

³ The taxpayer must put a self-selected PIN on the tax return; it is used by the IRS to verify that the family member or friend is the third party designated by the taxpayer to discuss his or her tax matters with the IRS. If the taxpayer selects the paid preparer as the third party designee, the paid preparer's SSN or PTIN is used for verification.

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Background

The 2001 Filing Season was the first year for the Third Party Designee Program. This Program (also called the “Checkbox Initiative” because of the checkbox added to the Third Party Designee section of the tax forms) was designed to lessen the burden on taxpayers by avoiding the need to file a Power of Attorney and Declaration of Representative (Form 2848), which would be otherwise necessary. The Program came about as a direct result of input from external stakeholders, including groups representing paid tax return preparers. While only paid tax return preparers could be designated for the 2001 Filing Season, the Program was expanded in the 2002 Filing Season to allow an individual taxpayer to designate a family member or friend.

A third party designee acts as an authorized third party contact for resolving certain issues related to the processing of his or her tax return. The designation allows authorized individuals to talk directly with the Internal Revenue Service (IRS) to correct common math errors and data omissions, such as missing or incorrect Social Security Numbers (SSN) for the tax year designated by the tax return. The designation also allows the third party to discuss the status of a refund, payment, or several notices with IRS representatives.

The third party designation does not constitute representation of taxpayers or practice before the IRS. A taxpayer who wants to authorize an appropriate tax professional to do more than the checkbox allows can make that authorization by submitting a Form 2848 for the year in question.

The third party designee is available on all Form 1040 series paper and electronic tax returns; it is unavailable on Telefile¹ returns. The designation is irrevocable for the tax return year.

Of the approximately 106 million paper and electronic tax returns processed during the 2002 Filing Season between January 2 and May 18, 2002, nearly 25 million (24 percent) contained a third party designee. The following table shows

¹ Telefile allows the taxpayer to file his or her Federal Income Tax return using a touch-tone telephone.

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the percentage of paper and electronic tax returns processed with a third party designee.

Individual Income Tax Returns Filed With a Third Party Designee Between January 2 and May 18, 2002

	Returns Processed	Third Party Designee	Percentage of Total
Paper	59,563,969	15,788,233	27%
Electronic	46,164,036	9,075,996	20%
Totals	105,728,005	24,864,229	24%

Source: Tax Year 2001 returns processed between January 2 and May 18, 2002, on the IRS database that maintains transactions and records of individual tax accounts.

For the 2002 Filing Season, the IRS estimated that an additional 40 keystrokes would be needed for each paper tax return with the third party designee selected. This amounted to an estimated 35.2 staff years to capture the information during processing of the returns.

This review is a follow-up to concerns reported by the Treasury Inspector General for Tax Administration during the 2001 Filing Season on the IRS' processing procedures for the third party designee.² Since these concerns were reported, the IRS has made changes to its program. This review covered these changes. In its review of the IRS' 2002 Filing Season, the General Accounting Office is assessing whether the Third Party Designee Program is working effectively.

This audit was conducted in the IRS National Headquarters in New Carrollton, Maryland; the Wage and Investment Division Headquarters in Atlanta, Georgia; and the Atlanta and Fresno Submission Processing Centers (ATSPC and FSPC, respectively) between May and July 2002.

The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on the audit objective, scope, and methodology is presented in

² *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season* (Reference Number 2001-40-192, dated September 2001).

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The Internal Revenue Service Correctly Identified and Accurately Captured Third Party Designee Information

Appendix I. Major contributors to the report are listed in Appendix II.

According to the instructions for the Tax Year (TY) 2001 individual tax returns, if a taxpayer wanted to allow a friend, family member, or any other person to discuss his or her tax return with the IRS, specific information should be provided in the Third Party Designee section of the tax return. This information includes checking the ‘Yes’ box indicating a third party designee and providing the designee’s name and telephone number and a five-digit personal identification number (PIN).³ If, however, the taxpayer preferred to allow a paid preparer to discuss the tax return, he or she would simply enter “Preparer” in the space for designee’s name; no other information (e.g., phone number) is required for this section. The identifying information for the paid preparer, such as the preparer’s name, telephone number, and preparer tax identification number (PTIN) or SSN should be provided in the Paid Preparer section of the tax return, right below the Third Party Designee section.

Tax returns with third party designee information were correctly identified

The IRS correctly identified tax returns with third party designee information during processing. We scanned a judgmental⁴ sample of approximately 1,800 TY 2001 tax returns processed at the ATSPC and FSPC as of June 2002. There were 372 tax returns (21 percent) that contained a third party designee. In over 94 percent of these tax returns, a positive third party designee indicator⁵ and the PIN or PTIN, when provided by the taxpayer, appeared on the taxpayer’s account on the IRS’ computer system,

³ The taxpayer must put a self-selected PIN on the tax return; it is used by the IRS to verify that the family member or friend is the third party designated by the taxpayer to discuss his or her tax matters with the IRS. If the taxpayer selects the paid preparer as the third party designee, the paid preparer’s SSN or PTIN is used for verification.

⁴ We performed a judgmental sample due to resource and time constraints.

⁵ During the processing of the tax return, the IRS places a “1” in the third party designee indicator field on the taxpayer’s account if a third party designee was selected on the tax return. A “0” is generally used when no designee is selected.

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indicating the IRS correctly identified the third party designee information on these tax returns during processing.

The IRS captures the information from the third party designee section of the tax return on its computer system during processing. When the paid preparer is the third party designee, the positive indicator is captured in the third party designee section. The paid preparer information is captured separately in the paid preparer section. The indicator was present on 355 (95 percent) tax accounts. The PIN or PTIN was present on 344 (98 percent) of the tax accounts for the 352 instances where the taxpayer provided the PIN or PTIN.

Third party designee information was accurately captured during processing

The third party designee information provided by taxpayers on their TY 2001 tax returns was accurately captured during processing of these returns. We reviewed a random sample of 146 TY 2001 individual tax accounts where a third party designee indicator was present and the tax return was processed at the ATSPC and FSPC between January 2 and May 18, 2002. A comparison of the third party designee information on the tax return to that on the tax account showed the IRS accurately captured the information on its computer system during processing in 142 (97 percent) of 146 accounts.

Based on the tax return, in 145 (99 percent) of the 146 instances, the taxpayer used a paid preparer. The paid preparer was the third party designee on all 145 tax returns.

The Third Party Designee Indicator and Related Identification Numbers Were Available on the Internal Revenue Service's Computer System

As stated earlier, the IRS should disclose tax information about a taxpayer's account to authorized individuals only. Although the authority provided to third party designees is limited, IRS employees must still ensure they are disclosing the tax information only to the authorized third party. To verify the third party is the authorized designee, employees are instructed to research the taxpayer's account on the IRS' computer system for the third party indicator and PIN or PTIN given to them by the third party.

We judgmentally selected 20 from our sample of 146 tax accounts to verify whether the indicator and PIN or PTIN were available on the tax accounts. We researched the IRS'

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computer system using a common IRS research command code that provides information which is captured during processing and is available to employees who respond to inquiries about taxpayers' accounts. The indicator and PIN or PTIN, when requested, were available on each account.

Although not needed to verify the third party who provides the employee with the PIN or PTIN during the inquiry, IRS guidelines also state that the third party's name and telephone number should be present on the tax account using the research command code described above. Our review indicated the IRS had not programmed its computer to display this information. This inconsistency between the procedures and the information present on the computer system could cause frustration for IRS employees when trying to resolve problems for a third party who has lost or forgotten his or her PIN.

We shared this concern with the IRS during our review. The IRS acknowledged the designee's name and telephone number should have been programmed to display on the taxpayer's tax account and programmed the appropriate revisions immediately.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the availability and accuracy of the third party designee information for expediting timely and accurate resolution of Wage and Investment taxpayers' account and notice inquiries.

To accomplish our objective, we:

- I. Determined if all third party designee information being captured from tax returns with a designation present was electronically available for research purposes.
 - A. Used manual techniques to judgmentally¹ select and scan 1,800 Tax Year (TY) 2001 individual tax returns processed at the Atlanta Submission Processing Center (ATSPC) and Fresno Submission Processing Center (FSPC). From the 900 tax returns processed by each processing center in our sample, we identified 194 and 178 tax returns processed at the ATSPC and FSPC, respectively, which contained third party designee information.
 - B. Compared information on the identified tax returns with data available from the main Internal Revenue Service computer system² (i.e., Individual Master File) using the Integrated Data Retrieval System³ (IDRS) command code Return View⁴ (RTVUE) to determine whether the applicable indicator and Personal Identification Number (PIN)⁵ or Preparer Tax Identification Number (PTIN) fields for the third party designee authorization were present.
- II. Determined if the third party designee information was accurately captured during the processing of the tax returns.
 - A. From a computer extract of TY 2001 individual tax returns processed at the ATSPC and FSPC between January 2 and May 18, 2002, selected two random samples of 73 tax returns where taxpayers designated a third party designee. We based our sample size on a 95 percent confidence level and a 5 percent error rate, ± 5 percent precision.

¹ We did not use a statistically valid sample due to resource and time constraints.

² The IRS database that maintains transactions and records of individual tax accounts.

³ The IRS computer system that retrieves or updates stored information on a taxpayer's account record.

⁴ A common IRS research command code that provides information that is captured during processing and is available to employees that respond to inquiries about taxpayers' accounts

⁵ The taxpayer must put a self-selected PIN on the tax return; it is used by the IRS to verify that the family member or friend is the third party designated by the taxpayer to discuss his or her tax matters with the IRS. If the taxpayer selects the paid preparer as the third party designee, the paid preparer's Social Security Number or PTIN is used for verification.

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- B. Compared the third party designee information on the physical tax return to the data we obtained from IRS computer files for these tax accounts to assess the accuracy of the information.
- III. Determined if the third party designee information was available on the IRS' computer system for expediting timely and accurate resolution of taxpayers' account and notice inquiries. From each of the random samples of 73 in step II. above, we judgmentally selected 10 tax accounts and researched the information on the IDRS, using research command codes, to determine whether the appropriate fields for the designation were present.

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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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